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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 001719

SIPDIS

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TREASURY FOR ED BARBER AND CWILKINSON

E.O. 12958: DECL: 07/24/2012
TAGS: ECON EPET ETRD ZI
SUBJECT: ZIMBABWE FACES FUEL SHORTAGES UNLESS NEW BENEFACTOR APPEARS

REF: HARARE 01664

Classified By: Labor officer Karen Bel.
Reasons: 1.5 (B) and (D).

¶1. (C) Summary. Amid rumors of imminent fuel shortages reminiscent of those that occurred in 1998, a local economist estimates that Zimbabwe retains at best a one-month supply of oil should pipeline and tanker shipments be curtailed. The southern and northern regions are serviced by different supply sources and each is threatened by discrete factors, both of which involve the lack of forex. If both regions were to lose oil supplies simultaneously, however, the northern part would probably retain access to more fuel than the southern part due to reserves currently stocked in the local storage facilities. For the moment, and in the absence of the GOZ discovering an outside lifeline, it seems to be a question of when -- not if -- the shortages set in. End summary.

¶2. (C) Laboff met with economist John Robertson on July 23 to sound out recurrent rumors of an imminent fuel shortage due to the chronic lack of forex. Robertson confirmed that he has also heard the rumors, but he had no concrete information indicating that suppliers have yet withdrawn. However, he confirmed that funding for both current major sources of fuel is in jeopardy, and stated that Zimbabwe is "not far off" from widespread shortages.

¶3. (C) Currently, the northern part of the country is serviced via pipeline from Mozambique through an arrangement with Libya. According to Robertson, the GOZ has been paying for Libyan fuel through the transfer of equity in and ownership of various Zimbabwean assets, including commercial farms, the pipeline itself, and an oil storage facility in Msasa. (Note: Interestingly, an equity deal involving the same oil pipeline and Msasa storage facility was reportedly consummated with Kuwaiti sources for oil which was purchased last year. End note.) As stated in reftel, however, Finance Minister Simba Makoni reported that the Libyan Area Foreign Bank has limited its investments in Zimbabwe to purchases of shares in the Commercial Bank of Zimbabwe. Regardless, Robertson reported that the Libyans are apparently tired of being offered equity or Zimbabwe dollars, and are increasingly insisting on payment in forex for their oil, due to their own operational and production costs.

¶4. (C) By contrast, the southern part of the country -- which for purposes of the oil distribution scheme includes Victoria Falls as well as Beitbridge, Bulawayo, and Chipinge -- is serviced by shipments from South African oil companies (Sassoil), with the funding reportedly provided by Zimbabwe-based businessman John Bredenkamp through a loan to Mugabe. The fuel for this region is brought in via truck and rail. Shortages have already been reported during the past few months, including a period of several days during which no fuel was available in the Bulawayo area. This shortage was relieved when fuel from stocks in the northern part of the country was shipped in to Bulawayo via truck. Funding for the southern region is allegedly endangered due to strained relations between Mugabe/the GOZ and Bredenkamp, who reportedly is unwilling to increase his financial exposure to the GOZ. (Note: Robertson opined that some of the strain is due to Bredenkamp's perception that a close relationship with the GOZ is detrimental to his other business interests, which is in fact evidence that inclusion on the US sanctions list is effective. End note.) If Bredenkamp refuses to finance future purchases, the GOZ will once again be scrambling for enough forex to maintain shipments from South Africa. Should this alternative source of fuel dry up, the shortage could be managed for a short period by trucking in fuel from the northern stocks. However, the capacity of the pipeline is insufficient to provide fuel for the entire country, and if the southern source is cut off, the reserves of the country would rapidly be depleted.

¶5. (C) According to Robertson, there seems to be little hope

for new sources of funding for either the northern pipeline fuel source or the southern road/rail fuel source. Both import schemes require large amounts of forex, which is in spectacularly short supply. There are few forex-generating exports and even fewer forex-generating domestic businesses. The GOZ is facing increasing pressure to purchase and import food in addition to that provided through humanitarian aid programs, and further economic reverses are expected. Despite negotiations with the Libyans and other oil producing nations, no new sponsor has appeared on the horizon. Additionally, there appear to be no new sources for loans to the GOZ, as there are no repayment prospects for either new or existing loans.

¶6. (C) Comment: Although the rumor that "when the pig comes through the pipeline, that's all there is" cannot be substantiated, there is little doubt that Zimbabwe is facing widespread fuel shortages within a month, should either source be cut off. The financiers of both current sources of fuel are dissatisfied with the status quo. Unless some new source of forex, or new benefactor, appears on the scene, fuel shortages are not far away. End comment.
SULLIVAN